INTEGRATED SAFEGUARDS DATA SHEET
IDENTIFICATION / CONCEPT STAGE

Report No.: ISDSC16376

Date ISDS Prepared/Updated: 15-Dec-2015

I. BASIC INFORMATION

A. Basic Project Data

Country:	Kyrgyz Republic	**Project ID:**	P158654
Project Name:	Audit of DEBRA		
Team Leader(s):	Cevdet Cagdas Unal		
Estimated Date of Approval:	17-Dec-2015		
Managing Unit:	GFM09	**Lending Instrument:**	Lending Instrument
Sector(s):	General finance sector (100%)		
Theme(s):	Corporate governance (40%), Regulation and competition policy (20%), Other Financial Sector Development (40%)		
Financing (in USD Million)			
Total Project Cost:	0.3363	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			**Amount**
Free-standing TFs for ECA PF Sector Unit			0.3363
Environment Category:	C - Not Required		

B. Project Development Objective(s)

This activity is part of the SECO Funded Kyrgyz Financial Sector Development Project which aims "to enhance financial sector stability by (i) strengthening the legal and regulatory capacity of NBKR as a financial sector regulator; and (ii) improving financial safety net".

C. Project Description

Following the reforms under the current initiatives, the urgency for additional reforms focusing on bank resolution become more apparent. Currently, the resolution framework consists of complex and ineffective tools for bank resolution. Conservatorship is neither designed nor used as a resolution tool, but rather is used as a tool to restore the problem bank's financial soundness and adherence to prudential norms. During conservatorship, shareholders remain in place and may eventually become the beneficiaries of the NBKR's efforts. Most of the resolution procedures, including liquidation, restructuring and rehabilitation, take place under court supervision, with the participation of creditors and shareholders, and the Bank Reorganization and Debt Restructuring Agency (DEBRA) acting as the sole liquidator.

Importantly, dysfunction of DEBRA significantly undermines the effectiveness of the resolution framework. The DEBRA was established as an entity under the NBKR in 1996, initially to help manage and privatize state-owned banks. This original mandate was to end after five years; however, it subsequently evolved into an asset management company with multiple tasks, and became a more independent entity reporting directly to the President. The DEBRA's current roles include: (i) the mandatory "special administrator" (liquidator and rehabilitator) of banks in liquidation; and (ii) the collector of debts on behalf of the MOF. The DEBRA considers the rehabilitation of failed banks as its major task hamstringing the bank resolution regime. Many of the liquidation cases that it handles have been lingering for more than a decade, despite the legal time limit of two years. Meanwhile, the DEBRA's financial reports have not been published nor audited by professional auditors. The bank estates that it manages also require external audits.

Hence, the termination of DEBRA's bank resolution functions following the liquidation of banks under its management will be key to complement ongoing reform efforts as recommended by 2013 Financial Sector Assessment Program (FSAP). To address identified weaknesses, the authorities have prepared a new Banking Law which is currently before parliament. One of the aims of the Law is to restrict the potential interventions of the courts, while enhancing the effectiveness of the administrative resolution tools, and enhancing the NBKR's ind ependence and accountability. However, these reforms could not yield intended results on the resolution framework without the termination DEBRA's related functions. Accordingly, 2013 FSAP recommends to terminate DEBRA's functions and granting them to the NBKR.

The first step to achieve termination of the DEBRA's resolution function is to facilitate external audit of the institution and banks under its management. In line with this, SECO and IMF approached the World Bank to take the lead on the implementation of the audit in June 2014. On the preparation stage of the additional financing proposal in December 2014, this component was designed as a bank-executed activity. Nevertheless, during the consultations with relevant departments, the team was informed that execution by the World Bank could not be possible for this particular area of work and the existing trust fund should be transformed into a hybrid one with this component being executed by the recipient. Based on this, SECO decided to provide the initially agreed amount of US $2 million in December 2014 upon the condition that US$336,300 (including taxes) of this amount would be allocated for the DEBRA audit when the authorities decides to implement the audit with a recipient-executed approach. As a result this amount was allocated as contingency to other components until the execution of DEBRA audit.

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At the beginning of 2015, the World Bank and IMF met with the institutions involved in the audit of DEBRA (DEBRA, the President's Office, the Ministry of Finance and NBKR) and all parties agreed on the recipient-executed approach and drafted an action plan (see Annex 1 and 2). According to the plan, DEBRA will be the recipient of grant while the Project Implementation Unit at the NBKR will responsible for the implementation. The Ministry of Finance sent their confirmation on DEBRA's eligibility as a grant recipient in November 2015 (please see Annex 3).

D. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

E. Borrower's Institutional Capacity for Safeguard Policies

F. Environmental and Social Safeguards Specialists on the Team

II. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/ BP 4.01	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/ BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

III. SAFEGUARD PREPARATION PLAN

Appraisal stage ISDS required?: No

IV. APPROVALS

Team Leader(s):	Name: Cevdet Cagdas Unal	
Approved By:		
Safeguards Advisor:	Name: Zeynep Durnev Darendeliler (SA)	Date: 16-Dec-2015
Practice Manager/ Manager:	Name: Rolf Behrndt (PMGR)	Date: 16-Dec-2015

[1] Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.